

**LEGISLATIVE SERVICES AGENCY**  
**OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**  
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**ADMINISTRATIVE RULE**  
**(REVISED) FISCAL IMPACT STATEMENT**

**PROPOSED RULE:** 98-53

**STATE AGENCY:** State Board of Tax Commissioners

**DATE PREPARED:** Nov 20, 1998

**DATE RECEIVED:** Sept 15, 1998

**FISCAL ANALYST:** Bob Sigalow

**PHONE NUMBER:** 232-9859

**Digest of Proposed Rule:** This proposed rule adds 50 IAC 2.3 to incorporate a manual for the assessment of real property. The proposal also repeals the current assessment manual.

IC 6-1.1-4-4 requires a general reassessment of real property to be completed every four years with March 1, 2001 being the next effective date. The State Tax Board, under authority of IC 6-1.1-4-26, may adopt or promulgate regulations, appraisal manuals, rules, bulletins, directives, and forms for the assessment and reassessment of real property. The State Tax Board is also required by IC 6-1.1-31-1 to adopt rules concerning the assessment of tangible property.

**Governmental Entities:** State: This rule places no unfunded mandates upon state government.

The increased tax liability of residential property tax payers as a result of reassessment using the proposed manual will also cause the state's liability for homestead credit to increase. Under current law, the homestead credit is scheduled to be reduced from its current 10% to 4% in CY 2002. The increase in CY 2002 is estimated at \$7.2 million. Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any additional Homestead credit expenditures would ultimately come from the General Fund.

Local: This rule places no unfunded mandates upon any local government unit.

**Regulated Entities:**

The regulated entities affected by this proposed rule are the owners of taxable real and personal property in the state of Indiana. The State Tax Board has identified major substantive changes in the cost tables, depreciation tables, land values, neighborhood classifications, condition classifications, and grading.

An analysis was performed by Purdue University to determine how the proposed manual compares to the previous manual and, specifically, how these changes affect the relative tax burdens on the various classes of property.

The comparison of the manuals led to the development of property class multipliers. Multipliers are average factors that show how true tax values for each property type will change when the proposed manual replaces the old. These multipliers were then verified by repricing a stratified sample of property record cards representing each class of property. The multipliers represent the effect on true tax value assessments of the rise in the cost of building materials since the last reassessment. A statewide average was calculated and applied to estimate results for all 92 counties. The multipliers were then used to estimate changes in property tax liability by property class.

The following table shows the percentage change in real and personal property tax liabilities for owners of agricultural, residential, business and utility property. The average and median tax liability changes for the 92 counties are shown. The table also shows the maximum and minimum county percentage change in tax liability. The last item in the table shows the change for the average taxpayer across the state, in each of the four property classes. For example, the 9.2% change for the average residential taxpayer shows the amount of increase in the average homeowner's tax bill due to reassessment, using the proposed manual.

<b>Percentage Change in Real and Personal Property Tax Liabilities</b>				
<b>Class of Property</b>	<b>Agricultural</b>	<b>Residential</b>	<b>Business</b>	<b>Utility</b>
<b>Average County</b>	-0.4%	10.9%	-6.6%	-13.9%
<b>Median County</b>	-0.2%	10.7%	-6.8%	-14.6%
<b>Maximum County</b>	8.0%	38.3%	-2.8%	-2.3%
<b>Minimum County</b>	-7.6%	3.5%	-10.6%	-18.8%
<b>Average Taxpayer</b>	-0.3%	9.2%	-5.1%	-12.2%

In addition, an analysis was performed to compare the 9.2% increase in residential property tax liability with the shifts estimated by the State Tax Board. Their impact statement shows two different shifts. The first is a 2.8% shift of total tax levy from personal property to real property (this shift occurs each time real property is reassessed because real property is not revalued each year, as is personal property). In addition, the Tax Board also identified shifts among the various classes of real property. Residential real property was estimated to experience a 2.14% shift of the total real property tax liability. We applied both shifts to the residential tax liability and determined that the State Tax Board's shifts result in a total increase in residential tax liabilities of about 10%.

The CY 2002 statewide total net property tax levy (after PTRC and homestead credits) is estimated to be approximately \$5.4 billion. The average taxpayer percentage changes for each property class from the Purdue study were applied to each class's share of the \$5.4 billion total levy in order to estimate the tax dollar impact of the reassessment under this proposed rule. The table below restates the percentage change and also shows the total dollar impact for each property class. Net tax changes do not add to zero because additional homestead credit accounts for a portion of the change in residential property tax.

<b>CY 2002 Statewide Property Tax Impact</b>		
<b>Class of Property</b>	<b>% Change</b>	<b>Net Tax Change (M)</b>
<b>Agricultural</b>	-0.3%	\$ (1.2)
<b>Residential</b>	9.2%	172.8
<b>Business</b>	-5.1%	(142.9)
<b>Utility</b>	-12.2%	(36.0)

A detailed description of the analysis conducted by Purdue University, including property tax shifts by county is available from the Legislative Services Agency.

**Information Sources:** Bill Jones and Dr. Larry DeBoer, Purdue University.